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TO: The Board of Directors and Management of Missouri state-chartered credit unions

SUBJECT: CAMEL Rating System

With the implementation of risk-focused examination process, the National Credit Union Administration (NCUA) recently reviewed the CAMEL Rating System and issued Letter No. 03-CU-04 dated March 2003 which superceded Letter to Credit Unions No. 00-CU-08, dated November 2000. Your credit union has received the letter directly from NCUA. Credit union officials should read and become familiar with the letter. If your credit union does not have the letter, on the internet go to <http://www.ncua.gov/Ref/letters/2003/03-CU-04.pdf> or contact this office or your examiner for a copy.

The Division of Credit Unions has been performing risk-focused examinations for several years. The purpose of this Bulletin is to not restate information found in Letter No. 03-CU-04 but to address areas where our process differs from the NCUA.

With the risk-focused examination, examiners are assigning risk levels to seven areas of risk. Additionally examiners refer to key ratios determined from the credit union's financial information for the capital, asset quality, and earnings components of the CAMEL. Key ratios are useful indicators of performance but assigning CAMEL ratings based on a matrix of key ratios alone is not the Division of Credit Union's practice. Key ratios and other information provide guidance for the examiner's final assessment of the individual component rating of the CAMEL. Examiners must look behind the financial information to determine the significance of the key ratios, trends, projections and interrelationships with the seven risk areas. Examiners continue to have the discretion to increase or decrease any CAMEL rating if in their professional judgment a change in rating is justified.

Additionally, financial indicators such as key ratios are lagging indicators of risk. The key to successful risk management is effective overall credit union management since management impacts all seven-risk areas. CAMEL ratings should not be viewed as a "grade," but as a tool to measure risk and for the Division of Credit Unions to allocate resources for supervision purposes.

Disclosure of the CAMEL rating by Division of Credit Union's examiners is at the discretion of the examiner or request by the credit union. CAMEL ratings are confidential and are not to be disclosed to those other than credit union officials.